

VZCZCXRO3790
PP RUEHCN RUEHGH RUEHVC
DE RUEHHK #1423/01 2150843
ZNY CCCCC ZZH
P 030843Z AUG 09 ZDK
FM AMCONSUL HONG KONG
TO RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUEHC/SECSTATE WASHDC PRIORITY 8224
INFO RUEHOO/CHINA POSTS COLLECTIVE PRIORITY
RHEHNSC/NSC WASHDC PRIORITY
RUEAIIA/CIA WASHINGTON DC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 HONG KONG 001423

SIPDIS

STATE FOR EAP/CM AND EEB/IFD/OMA

E.O. 12958: DECL: 07/31/2034
TAGS: [EFIN](#) [ECON](#) [PREL](#) [PGOV](#) [HK](#) [CH](#) [KS](#)
SUBJECT: HKMA WORRIED ABOUT FSB SEAT, ASIAN CENTRAL BANKS
ABOUT ASSET PRICES

REF: A. HONG KONG 438
[1](#)B. HONG KONG 530

HONG KONG 00001423 001.2 OF 002

Classified By: Acting Consul General Christopher Marut, Reason 1.4 b/d

[1](#)1. (C) Summary: In an introductory meeting with the new Hong Kong Consulate General Economic and Political Chief July 29, Hong Kong Monetary Authority (HKMA) Deputy Chief Executive Peter Pang raised his concerns about Hong Kong,s future participation in the Financial Stability Board (FSB). Hong Kong is a valuable member of the FSB in its own right and, as an international financial center, has a very different perspective from that of China. Pang cited Hong Kong,s active participation in global financial architecture discussions and pressed the United States to support Hong Kong,s continued independent FSB membership. The HKMA hosted the annual meeting of East Asian Central Bank Governors July 21-23. Governors region-wide expressed their concern over rapidly rising asset prices and warned that a correction is coming. End summary.

=====
=====
Asian Central Bank Governors Worried About Regional Asset Bubble
=====
=====

[1](#)2. (C) The HKMA hosted the annual Executives Meeting of East Asia and Pacific Central Bank Governors (EMEAP) on July 21-23. Eleven Central Banks and Monetary Authorities participated in this meeting, including representatives from Japan, Korea, China, Australia, Hong Kong, Indonesia, New Zealand, Malaysia, the Philippines, Thailand, and Singapore. Typically a technical discussion focused on regional cooperation on banking supervision, payment and settlement systems and information technology, this year's meeting also discussed reforms of the international financial regulatory system and the possible impacts on participating economies. Although the public statement was typically anodyne, Pang said that senior financial officials from across Asia are all worried that asset prices in the region, particularly stock and property markets, are moving ahead of regional fundamentals. The rapid gains of recent months are not supported by additional activity in the real economy and will eventually be reversed, said Pang.

=====
"Please Support Hong Kong's FSB Seat"
=====

[1](#)3. (C) Pang noted that the HKMA has been an active

participant in international financial forums, both as a long-time member of the Financial Stability Forum (now known as the FSB) and as a member of the Chinese delegation at G20 meetings since fall of 2008. He thanked the United States for our support for their participation in those meetings, adding that Hong Kong's seat at the FSB should not be hostage to concerns about Chinese representation. With the expansion of the FSB to include G20 members, including China, Hong Kong has been put on a two year "probationary period", said Pang. FSB members will have to decide in 2011 whether to allow Hong Kong to continue to hold an independent seat in the FSB or be subsumed into the Chinese delegation. He asked that the U.S. support Hong Kong's continued independent participation in the FSB. (reftel b)

14. (C) China supports a separate seat for Hong Kong, Pang said. When asked which nations might oppose Hong Kong's independent participation, Pang offered that South Korea had expressed concern that China, with three seats, plus Hong Kong's one seat, would have undue weight in FSB decisions. Pang dismissed this concern for two reasons. As a consensus-based decision-making organization, additional representatives from any country or economy cannot unduly influence consensus decisions of the entire body. Secondly, the Hong Kong and Chinese financial systems are at different levels of development and may often have different perspectives and concerns. Although China is becoming a more important player in international financial discussions, Hong Kong is already a sophisticated international financial center with a history of productive and independent participation in financial forums such as the FSB, said Pang.

HKMA representatives are active members of two FSB committees, one discussing regulatory reforms and international standards and another on financial sector reforms (reftel A); the HKMA also coordinates East Asian

HONG KONG 00001423 002.2 OF 002

surveillance work for the EMEAP and has been actively engaging in training for the People's Bank of China and the Chinese Banking Regulatory Commission.

15. (C) Hong Kong will continue to be an active participant in FSB meetings and committees over the next two years, said Pang, as it attempts to demonstrate it's usefulness to the rest of the Board. The Hong Kong government will also be quietly lobbying FSB member economies for their support for Hong Kong's continued participation. Pang asked for U.S. support for Hong Kong's continued FSB participation, particularly with other members of the G7.

MARUT